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SUBJECT: SAUDI INVESTOR OBTAINS 20% SHARE IN AUSTRIAN AIRLINES

Summary

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11. Saudi investor Sheik Mohamed Bin Issa Al Jaber, who obtained Austrian citizenship in 2007, will obtain a 20% share in Austria's national carrier, Austrian Airlines (AUA). The Euro 150 million (\$225 million) equity increase will help AUA purchase new aircraft and expand its Middle East network. In exchange for effectively placing half of his shares under the control of the GoA and for agreeing to sell his shares to the GoA in the case of a privatization, the GoA will guarantee a Euro 7.10 price per share, should Al Jaber ever sell. For 2007, AUA registered a net profit of Euro 3.3 million (\$5.1 million) and earnings before tax and interest (EBIT) of Euro 25.6 million (\$39.6 million), the first positive EBIT in four years. Al Jaber's investment helps boost AUA's stance as an independent carrier in the short-term, but many industry analysts believe AUA will eventually need a strategic partner. End Summary.

AUA Takes Saudi Investor on Board

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12. On March 10, OIAG, the Austrian Government's holding agency, approved a Euro 150 million investment by Sheik Mohamed Bin Issa Al Jaber in Austrian Airlines (AUA). Al Jaber is a member of the Saudi royal family and, since 2007, an Austrian citizen. He is the founder and CEO of MBI International, a group of companies with a net asset value of \$6.6 billion operating in Europe, the Middle East and the United States (see <http://www.mbialjaber.com/>). Al Jaber already holds investments in three five-star hotels in Vienna and a local tourism school.

13. AUA will carry through a Euro 150 million (\$225 million) equity increase, which will allow Al Jaber to obtain a 20% share in AUA. Al Jaber will pay Euro 7.10 per share, above the current price of Euro 5.75. AUA's new shareholder structure will likely be as follows: Al Jaber 20%, AUA 2%, private investors 38%, and 40% with a group of syndicated shareholders (OIAG, Austrian banks and insurance companies) under the OIAG's lead. AUA reportedly will use the fresh capital to purchase three new aircraft and to expand its network in the Middle East, where AUA faces stiff competition from Emirate Airlines.

14. To obtain his 20% share, Al Jaber agreed to place approximately half of his AUA shares under the control of the syndicated Austrian shareholders to ensure AUA's status as a national carrier. In the event of any privatization, Al Jaber must sell his AUA shares to the OIAG. However, Al Jaber may participate in any privatization process. In exchange for these measures, the OIAG agreed to protect Al Jaber against any downside price risk. Al Jaber is ensured a

minimum sale price of Euro 7.10, should he decide to sell his AUA shares (any sale to a third party requires OIAG approval). AUA shares last reached Euro 7.10 on November 5, 2007. The current price is around Euro 5.75.

#### AUA Back in Black in 2007

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¶5. On March 12, AUA announced a net profit of Euro 3.3 million (\$5.1 million) compared with a 2006 loss of Euro 129.9 (\$200 million). Underlying earnings - earnings before interest and tax (EBIT) - were Euro 25.6 million (\$39.6 million) in 2007, the first time in four years that EBIT had been positive. Net debt also declined to Euro 983 million (\$1.5 billion). AUA attributed the improvement in 2007 to an overhaul of its long-distance business model and strong performance in its short and medium-length routes.

#### Comment

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¶6. Despite the good news on 2007 profits, airline analysts continue to question whether AUA, which has encountered severe financial turbulence over the past years, can survive in the long run without a strategic partnership. The Al Jaber investment, reportedly made possible by GoA lobbying and pressure, may well offer only an interim solution for those promoting AUA as an independent carrier without a strategic partner. Of note, the OIAG, for the first time in recent memory, highlighted the possibility of privatizing AUA. AUA's board must still approve the Al Jaber deal and private investors may challenge OIAG's seemingly preferential treatment for

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Al Jaber.

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